THOMSON INDUSTRIES LIMITED ANNUAL REPORT 1975

FINANCIAL HIGHLIGHTS

	1975	1974	Change
TOTAL REVENUE	$17,000,643	$11,560,560	+ 47%
EARNINGS:			
Before extraordinary item	$ 953,888	$ 588,507	+ 62%
Extraordinary earnings	367,551	—	—
Net earnings	$ 1,321,439	$ 588,507	+ 125%
CASH FLOW	$ 2,514,316	$ 1,665,958	+ 51%
SHARES OUTSTANDING	885,503	879,253	
EARNINGS PER SHARE:			
Before extraordinary item	$1.08	$ .67	+ 61%
Extraordinary earnings	.41	—	—
Net earnings	1.49	.67	+ 122%
CASH FLOW PER SHARE	$2.84	$1.89	+ 50%
PERFORMANCE MEASUREMENTS:			
Return on Invested Capital (Net earnings ÷ Average Total Funds Invested)	20.1%	14.7%	+ 37%
Return on Average Shareholders' Equity (Net Earnings ÷ Average Equity)	37.5%	23.0%	+ 63%
Asset Turnover (Sales ÷ Assets)	1.3	1.2	+ 8%

OUR COVER

Depicts a drilling rig in search for oil, gas and minerals beneath the surface of the earth.

The Annual and Special General Meeting of the Shareholders will be held at Calgary, Alberta on Wednesday, October 8, 1975 at 10:00 A.M.

Thomson Industries Limited
1100 Milam Building
Suite 3080
Houston, Texas 77002

R.O.B.

Toronto Globe and Mail
Toronto, Ontario, Canada

U.S. POSTAL SERVICE, TX 770
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24 DEC
1975

We hold these Truths...
UNITED STATES 10c

Thomson Industries Limited

Second Quarter Report
October 31, 1975

To The Shareholders

In the first six months ended October 31, 1975, Thomson Industries' gross revenues were $11.4 million, an increase of 76% compared to the same period last year. Net earnings for the period amounted to $593,036 equal to $.66 per common share compared to $324,474 or $.36 per common share for the same period in 1974.

DRILLING

Our rigs in Texas and Wyoming have continued to operate at 80% of capacity. We expect to maintain a utilization rate of 80% in the United States for the balance of our fiscal year, however, should the United States government roll back prices and/or withdraw the tax write-off for intangible drilling costs, either of these actions could significantly reduce rig activity.

Canadian drilling activity continued to be weak through September, however, rig demand firmed in October and it appears that all the Canadian rigs will be fully employed for the next six months. Increased exploration is taking place in the established producing areas of Alberta and British Columbia where higher prices particularly for natural gas offer increased cash flows.

Operations of Thomson Drilling (U.K.) for the National Coal Board are head of plan. The three rigs in England will be fully employed for the next six months, completing the 32 core holes remaining on the contract. The Coal Board has long range plans for the exploration and development of additional coal reserves. This market together with onshore oil and gas exploration should provide a stable demand for the foreseeable future.

OIL WELL SERVICING

The demand for oil well service rigs for the first six months was severely depressed. Most oil companies held back on production maintenance programs pending the federal government's mini-budget brought down in July. Target Well Servicing also suffered a loss of income from two of its rigs operating in the United States. One rig was destroyed by fire and the second rig was damaged extensively while moving. While both accidents were covered by insurance, we are not insured for loss of income. Late delivery of our new coiled tubing unit also contributed to a further loss of income during the period.

Market conditions have improved significantly since September and all of our equipment should be fully employed through the winter. We remain confident in the future for oil well servicing in both Canada and the United States and intend to expand operations in both areas.

OIL & GAS EXPLORATION AND PRODUCTION

During the first six months the Company participated in the drilling of eight wells located in Texas, Louisiana and Alberta which resulted in one oil well, one gas well and six dry holes. A recently completed well located near Lafayette, Louisiana flowed oil at the rate of 288 BOPD from 10 feet of Frio sand during the first 24 hours and is currently shut-in waiting on production facilities. A second Frio oil bearing zone will be perforated after sufficient production history is obtained from the first zone. Several development wells could result from this discovery in which the Company has a 12.5% working interest. A marginal three zone gas well was also completed in Eastern Alberta, our interesting being 35%.

Net revenues from oil and gas production during the first half totalled $96,000 as compared to $42,000 a year ago. Future drilling commitments include two gas prospects located in Texas and Louisiana and two gas prospects in Alberta. The Company plans to participate in at least six additional prospects located in Louisiana, Texas and Oklahoma prior to year end. In addition the Company will participate in a 10-well development program on the joint Thomson-Brascan lands in Eastern Alberta commencing December, 1975. We anticipate "on stream" gas from the joint Thomson-Brascan properties will commence May, 1976 with all properties involved in this prospect to be on production by December, 1976.

PLANNING

During the past few months, your management together with its Directors have spent considerable time developing a five year plan. We believe that the strong demand for drilling and workover services will continue and that oil and gas supplies will be critically short throughout the free world. Based on these beliefs we are planning for expansion of our drilling, oil well servicing and oil and gas exploration.

TORONTO STOCK EXCHANGE

Your Company was listed for trading on the Toronto Stock Exchange on December 2, 1975, the trading symbol is TIL. The Company will retain its listing on the Alberta Stock Exchange.

DIVIDEND

On December 11, the Directors approved the first dividend of 10¢ per common share to be paid December 29, 1975 to shareholders of record December 15, 1975, subject to approval by the Anti-Inflation Board of the Government of Canada.

John Thomson

John W. Thomson
President & Chief Executive Officer

December 5, 1975

Thomson Industries Limited of Toronto
Consolidated Statement of Income
(Unaudited)

	Three Months Ended October 31		Six Months Ended October 31	
	1975	1974	**1975**	1974
REVENUE				
Contract Drilling	**$ 5,528,017**	$ 3,191,696	**$10,325,610**	$ 5,221,439
Well Servicing	**525,913**	489,446	**927,977**	833,117
Oil and Gas Sales	**47,886**	6,064	**96,274**	42,328
Gain on Sale of Fixed Assets	**—**	321,857	**—**	321,857
Other Income	**29,837**	29,345	**52,508**	52,712
	6,131,653	4,038,408	**11,402,369**	6,471,453
EXPENSES				
Operating	**4,702,536**	3,001,206	**8,844,311**	4,918,718
General and Administrative	**373,126**	240,973	**654,309**	455,442
Interest on Long-Term Debt	**69,333**	88,217	**131,285**	136,095
Other Interest	**69,427**	30,650	**119,073**	65,976
Depreciation, Depletion, and Amortization	**223,876**	165,227	**429,211**	308,618
	5,438,298	3,526,273	**10,178,189**	5,884,849
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	**693,355**	512,135	**1,224,180**	586,604
Income Taxes	**371,556**	233,772	**631,144**	262,130
INCOME BEFORE EXTRAORDINARY ITEM	**321,799**	278,363	**593,036**	324,474
Extraordinary Item	**—**	41,703	**—**	41,703
NET INCOME	**$ 321,799**	$ 320,066	**$ 593,036**	$ 366,177
EARNINGS PER SHARE				
Income Before Extraordinary Item	**$ .36**	$ .31	**$ .66**	$ .36
Extraordinary Item	**—**	.05	**—**	.05
Net Income	**$ .36**	$ .36	**$ .66**	$ .41

Thomson Industries Limited of Toronto (Cancorp)
Condensed Consolidated Balance Sheet
(Unaudited)

	October 31 1975	October 31 1974
ASSETS		
Current assets	**$ 6,990,992**	$ 4,605,070
Investments and advances at cost	**378,755**	166,301
Fixed assets at cost — net	**8,127,009**	6,670,981
Other	**284,073**	334,876
	$15,780,829	$11,777,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	**$ 4,630,930**	$ 5,150,047
Long-term debt	**4,402,466**	1,969,869
Deferred income taxes	**1,954,091**	1,424,341
Shareholders' equity	**4,793,342**	3,232,971
	$15,780,829	$11,777,228

Condensed Consolidated Statement of Changes in Financial Position
(Unaudited)

	Six Months Ended October 31 1975	Six Months Ended October 31 1974
SOURCES OF FUNDS		
Funds provided from operations	**$ 1,481,697**	$ 505,519
Proceeds from sales of fixed assets	**119,945**	468,557
Proceeds from sale of oil and gas properties	**102,000**	—
Proceeds from issue of long-term debt	**5,000,000**	1,054,973
Proceeds from employees for purchase of stock	**—**	103,604
Other	**12,675**	10,600
	$ 6,716,317	$ 2,143,253
APPLICATION OF FUNDS		
Reduction of long-term debt	**$ 2,340,660**	$ 415,977
Additions to fixed assets	**800,561**	1,802,906
Oil and gas exploration	**243,939**	272,964
Other	**9,347**	8,850
	$ 3,394,507	$ 2,500,697
INCREASE (DECREASE) IN WORKING CAPITAL	**$ 3,321,810**	$ (357,444)

COMPANY PROFILE

Thomson Industries Limited owns 25 oilwell drilling rigs and 10 oilwell servicing rigs and explores for oil and gas. It operates in Canada, the United States and the United Kingdom.

The company employs 500 people in six operating divisions with corporate headquarters in Houston, Texas. Each division operates under its own management team with overall leadership and direction from head office.

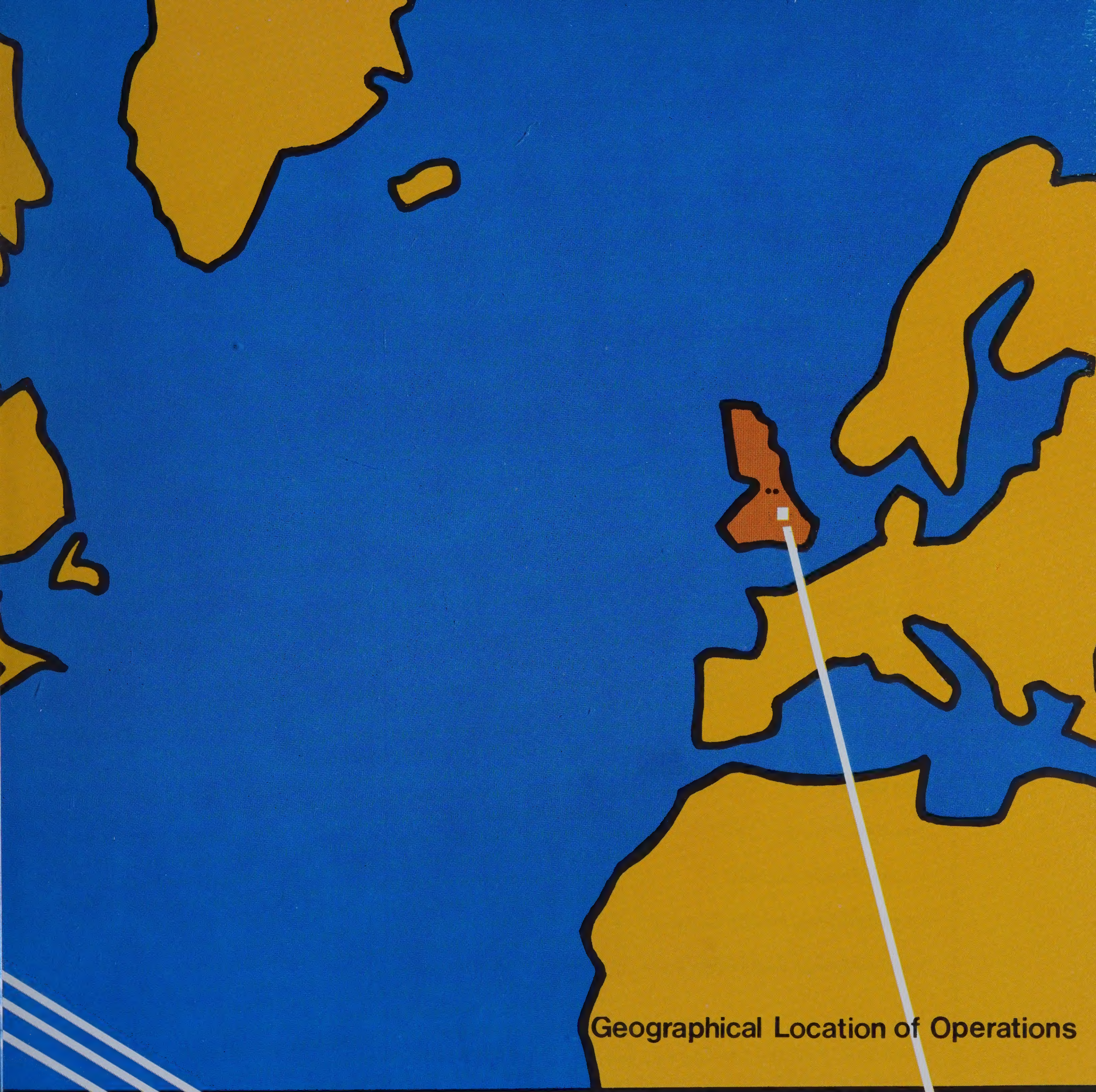
Thomson Industries Limited is a public company listed on the Alberta Stock Exchange. There are approximately 1,000 shareholders in Canada, the United States and Europe.

CORPORATE OBJECTIVE

1. To consistently earn a minimum 20 % annual rate of return on invested capital.
2. To provide an environment within the company which will permit employees to grow, to contribute to the company's success and to fulfill their own sense of purpose.

STRATEGY

1. To offer on a worldwide basis a broad range of drilling and oilwell services.
2. To use approximately half of the company's cash flow to explore for oil, gas and minerals to help satisfy the increasing world demand for these commodities. Oil and gas reserves are one of the few remaining investments for a diminishing dollar.



Geographical Location of Operations

UNITED STATES:

OFFICES —
- Houston, Texas
- Denver, Colorado
- Casper, Wyoming
- Laredo, Texas

RIGS —
- 7 in Wyoming
- 5 in South Texas
- 1 in Colorado

CANADA:

OFFICES —
- Edmonton, Alberta
- Red Deer, Alberta
- Calgary, Alberta

RIGS —
- 12 in Eastern Alberta
- 8 in Central Alberta

4 Producing Oil Wells
2 Producing Gas Wells
30 Shut-In Gas Wells

GREAT BRITAIN:

OFFICE —
- London, England

RIGS —
- 2 in Doncaster, England

THOMSON INDUSTRIES LIMITED

11 YEAR FINANCIAL SUMMARY

	1975	1974	1973	1972
Revenue	**$17,000,643**	$11,560,560	$8,141,853	$7,497,948
Cash Flow	**2,514,316**	1,661,442	868,856	472,711
Operating Profit (Loss)	**953,888**	588,507	226,535	23,220
Net Profit (Loss)	**1,321,439**	588,507	285,586	195,135
Total Assets	**13,179,212**	9,390,551	5,806,013	6,153,308
Shareholders' Equity	**4,188,233**	2,857,944	2,255,344	1,909,758
Average Invested Capital (1)	**6,505,652**	4,455,958	3,863,991	4,377,932
Return on Average Invested Capital (2)	**20.1%**	14.7%	8.1%	6.2%
Return on Average Shareholders' Equity	**37.5%**	23.0%	13.7%	10.9%

(1) AVERAGE INVESTED CAPITAL is the sum of long-term debt, deferred taxes, shareholders' equity and working capital deficiency at the beginning of the fiscal year and at the end of the fiscal year divided by two.

(2) RETURN ON AVERAGE INVESTED CAPITAL is the earnings for the year plus one-half the interest on long-term debt divided by average invested capital.

1971	1970	1969	1968	1967	1966	1965
$5,321,384	$4,624,358	$4,247,224	$3,103,309	$2,966,955	$1,806,212	$949,942
72,194	806,705	556,782	340,636	494,370	350,472	129,555
(103,121)	297,949	217,716	107,575	206,531	169,822	62,729
(212,996)	297,949	217,716	266,870	268,690	169,822	62,729
5,141,328	4,393,345	2,356,326	2,229,407	2,146,664	997,330	554,614
1,684,139	1,259,376	1,000,127	785,111	520,941	274,951	107,829
4,088,469	2,851,139	1,894,265	1,767,950	1,240,625	577,951	425,122
—	12.9%	12.6%	16.5%	22.5%	30.3%	15.4%
—	26.4%	24.4%	40.9%	67.5%	88.7%	58.2%

TO OUR SHAREHOLDERS

Thomson Industries achieved record sales and earnings for 1975. Excluding extraordinary income, the company earned a 37% rate of return on shareholders' equity. The drilling, oilwell servicing and exploration divisions all contributed increased earnings for the year. Detailed reports for each division are set out on the following pages.

1975 was also a year of marked change for your company. Thomson Industries moved its corporate headquarters from Calgary, Alberta to Houston, Texas. Cayuga Oil & Gas our exploration company, also moved their office to Houston. Because of more profitable markets, Thomson Drilling moved 6 rigs to Wyoming and 5 rigs to Texas, setting up administrative offices in Denver, Colorado. Target Well Servicing also transferred 2 of its rigs to Wyoming. Bow Island Drilling was awarded a contract with the National Coal Board of Great Britain and has commenced drilling and coring operations in the Doncaster area of England.

The company has grown rapidly in the last three years increasing gross revenues from $8 million in 1973 to $17 million in 1975. This past year, capital expenditures amounted to $3,674,654, including $755,563 invested in oil and gas exploration. Proceeds from the sale of one rig and other assets totalled $646,215. An additional $1,231,272 was borrowed on a term basis and $819,019 of long term debt was retired. At the year end, current liabilities exceeded current assets by $961,748 and additional long term financing is presently being arranged to provide the company with adequate working capital.

Worldwide changes in the oil and gas industry have been rapid and dramatic. Based on recent studies of the industry, it seems clear that the world will be desperately short of energy, particularly oil and gas until the end of this century. (By then, it is expected that new technology will have developed sufficient coal and nuclear power to meet our energy needs). The future price of oil and gas will be determined by the OPEC countries and this price will depend upon the amounts of oil we import from them. Substantial price increases by OPEC can only be constrained by aggressive exploration for domestic reserves and by vigorous conservation. While most of the major oilfields in North America have been discovered, with the exception of Alaska, the Arctic and the Continental Shelves, there are still substantial reserves remaining in small pools. These reserves will be much more difficult and expensive to find. Rewards for discovery must be commensurate with the risk in order to attract the necessary capital.

Against this background of rapid change, rising prices and shortages, your company is endeavouring to adapt to a new set of market conditions. We firmly believe that our strategy of offering a broad range of drilling and oilfield services and finding and developing oil and gas reserves will ensure the company's continued success.

Your Board of Directors, at its last meeting, decided that an application should be made to list the shares of the company on the Toronto Stock Exchange. This will be in addition to the present listing on the Alberta Stock Exchange. The Directors also approved in principle the desirability of a common share dividend during the coming year, providing profits so warrant.

On behalf of the Board of Directors, I want to thank all of the employees of Thomson Industries who made 1975 the company's most successful year. To our customers, thank you for using our services, we will continue to strive for quality performance. To our shareholders, your management will continue its efforts to enhance your investment in the company.

On behalf of the board

John Thomson

JOHN W. THOMSON
President

August 11, 1975

DRILLING OPERATIONS

This past year was the most active and successful in the history of the company, with the drilling divisions achieving record sales of $14,667,000 as compared to the previous year's $10,259,000.

We are presently operating 25 drilling rigs in four divisions, located in three countries. Set out below is a table showing rig locations, capacities, and utilization comparisons, where applicable.

	Industry Utilization		Our Utilization	
	1974	1975	1974	1975
Bow Island Drilling — Canada (6 rigs 1000' - 3000')	51 %	47 %	57 %	55 %
Thomson Drilling (U.K.) Ltd. — Gt. Britain (2 rigs 1000' - 3000')	NA	NA	NA	NA
Sarcee Drilling — Canada (6 rigs 3000' - 5000')	52 %	47 %	44 %	52 %
Thomson Drilling Inc. — U.S. (11 rigs 5000' - 12000')	39 %	NA	43 %	52 %

Thomson Drilling Inc. Field Office Casper Wyoming.

BOW ISLAND DRILLING

Because of the continuing high demand for drilling services in the shallow to medium depth ranges, four new Bow Island rigs were constructed during the past year, bringing their number to eight. Bow Island had an excellent year both in terms of market share and profitability, far exceeding our corporate objective of 20 % return on invested capital. In the two years since Bow Island was formed, the company has firmly established itself as a major force in the Western Canadian shallow rig market.

SARCEE DRILLING

Sarcee Drilling continued to operate its six medium depth rigs in Alberta and completed its most successful year to date. The search for shallow to medium depth gas in Alberta is presently the most active drilling market in Canada and Sarcee's equipment is ideally suited to exploiting this market which we believe will continue to be profitable for the foreseeable future. During the past year, there were 4060 holes drilled in Western Canada and Sarcee and Bow Island's 14 rigs, representing 4.5 % of the total available rigs in Canada, drilled 698 holes or 17.2 % of all the wells drilled in Western Canada.


Thomson Drilling Inc. Wyoming Operations Stu Byron - Diamond Shamrock Len Kangas - Toolpusher, Thomson Rig. 6 Eugene Eaton - Diamond Shamrock.

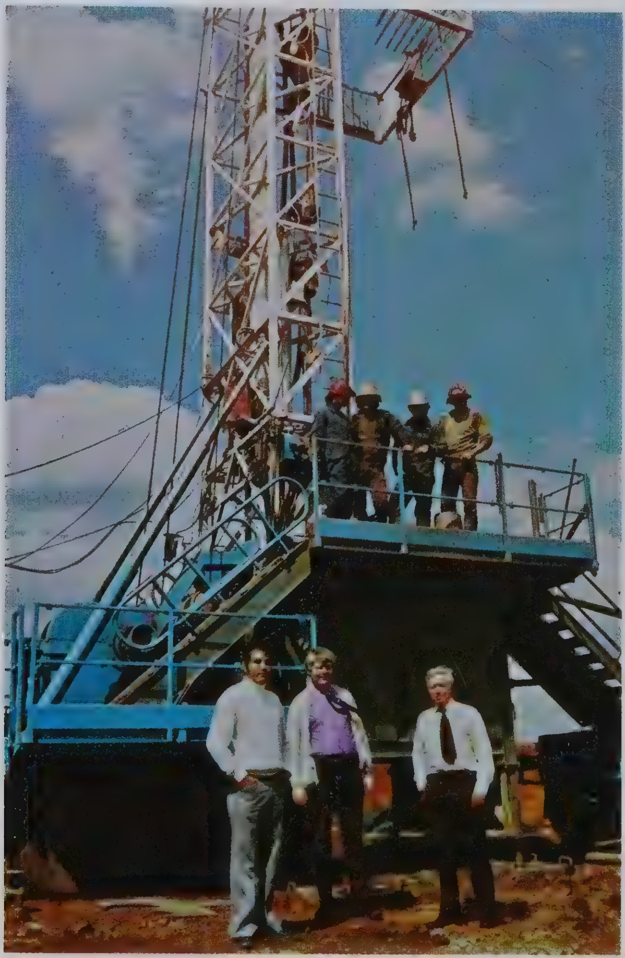
Thomson Drilling (U.K.) Ltd. Drilling for National Coal Board near Doncaster England July 1975.

THOMSON DRILLING (U.K.) LTD.

In May of this year we were awarded a long term contract from the National Coal Board of Great Britain for two of the Bow Island rigs. Rigs 10 and 29 are now operating in central England near Doncaster. The contract involves a number of exploratory core holes in the Coal Board's continuing search for more coal reserves. We have formed a subsidiary company, Thomson Drilling (U.K.) Ltd., with head office in London, England, to operate this contract and to expand our overseas market into Europe, North Africa, and the Middle East.

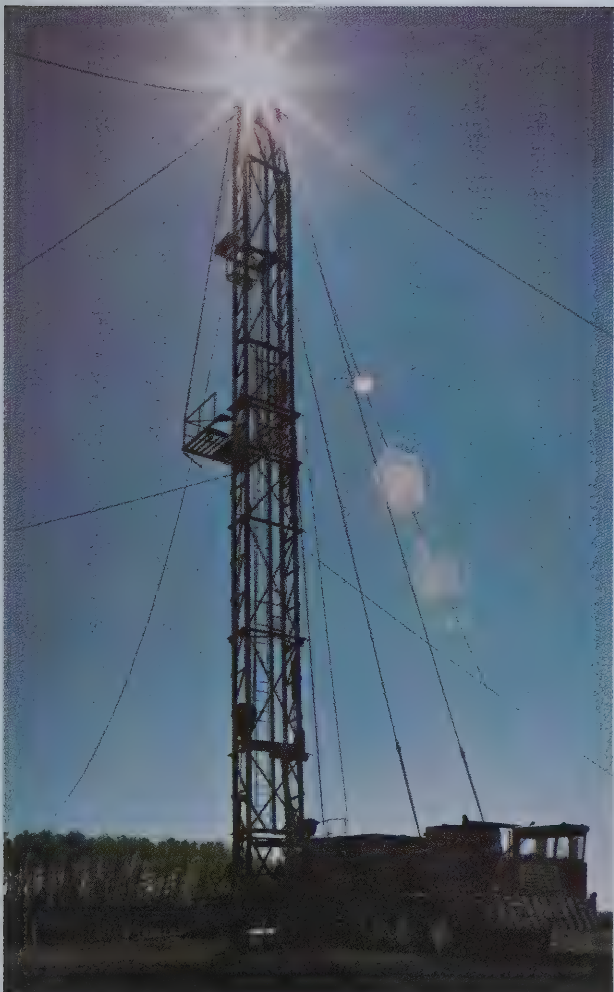
THOMSON DRILLING INC.

Thomson Drilling started the year with 12 rigs in the 5000' - 12000' depth category, all of which were located in Alberta, Canada. One rig was sold in order to finance the upgrading of other existing equipment in anticipation of an active market for this equipment. During the summer it became apparent that there would be no early resolution of the Federal-Provincial jurisdictional conflict with the result that the expected market did not materialize. There was a strong demand for rigs of this type in the United States and in September 1974, the eleven remaining rigs in Thomson Drilling were moved to the U.S.A. In addition to the five million dollars worth of equipment, which was moved, some forty families were relocated and are now working for our American subsidiary, Thomson Drilling Inc. Five rigs are operating in the Laredo area of South Texas, five rigs in the Casper, Wyoming area and one rig in Northeastern Colorado, with the head office of Thomson Drilling Inc. located in Denver, Colorado. Since moving the 11 rigs to the United States, we have experienced a utilization of 80%, as compared to 43% for the previous year. We believe that the demand for our deeper rigs in the United States will continue for at least five to ten years and that we will continue to realize a satisfactory return on invested capital.



Thomson Drilling (U.K.) Ltd. Al Jacober, Operations Manager Bob Draper and Ron Sheldon, National Coal Board Representatives Neil Thorburn, Mark Kasen, Wayne Jacober, Ramsey Volk, Rig crew.

OILWELL SERVICING



Target's rig No. 15 working for Canadian Superior at Lone Pine Creek west of Red Deer, Alberta.

Target rig No. 10 working for Imperial Oil at the Joffre field near Red Deer, Alberta.

Target Well Servicing's new "coiled tubing unit."

Target Well Servicing's operations cover four areas of oilfield work, oil and gas well completions, workovers, abandonments and the drilling of water source wells.

After a well has been drilled, completion work is necessary before it can be put on production. This involves running casing, tubing, rods and pumps, setting packers, swabbing and preparation for further work such as perforating, logging, acidizing and fracing.

A producing well requires periodic workovers in order to maintain maximum production. This work includes pulling rods, pumps, tubing or casing.

Dry holes, or abandonments involve recovering tubing and casing and cementing to seal off the well. Sometimes, re-entries are performed on capped or abandoned wells.

Target's newest addition to the service industry, is the "continuous coiled tubing unit." This rig can provide a quick and economical solution to a wide variety of well problems, including circulating of fluids, washing sand bridges and treating producing zones in the well bore. The unit is self-propelled, provides fast rig up; it can run into a depth of 10,000 feet in one hour and is capable of working to a depth of 14,000 feet.

Target offers its services throughout Alberta and in March of 1975, operations were expanded to the United States with the relocation of two rigs to the Casper area of Wyoming.

The future demand for oilwell service rigs in Canada and the United States appears excellent.

OIL AND GAS EXPLORATION

Cayuga Oil & Gas Ltd., the company's exploration subsidiary, invested $750,000 in oil and gas exploration during the year by participating in the drilling of nine wells and the acquisition of varying interests in approximately 20,000 acres of attractive oil and gas leases. Exploration activity was conducted entirely in Alberta with the exception of an offshore seismic program in Turkey. The year's drilling activity resulted in 2 oilwells, 2 gas completions and 5 dry holes. Exploration activity was reduced somewhat, due to the disturbing political uncertainties involving higher provincial oil and gas royalties, unrealistically high federal taxation and government controlled prices and production rates. Due to the lack of adequate incentives in Canada, the company transferred its exploration staff to Houston, Texas on April 1, 1975, after thoroughly examining the potential, risk-factor and attractive economics related to new oil and gas exploration opportunities in the U.S.A. The company will focus the majority of its exploration efforts in the U.S.A. next year while maintaining and cautiously developing its existing Canadian properties.

The highlights of this year's program include the Shekilie 4-16 oil well in Northern Alberta which produces 400 BOPD from the Devonian-Keg River formation. The company has a 35% working interest in this well. An oilwell was also completed in the Medicine River area from the Ostracod Sand. The company owns a royalty interest convertible to a working interest after payout. Two successful gas wells were completed from the Cretaceous Sands in Eastern Alberta, one well at Gambling Lake and the other at Jarvie. The Gambling Lake well was significant as it added sufficient gas reserves to enable this project to go on stream in August, 1975.

The company invested $50,000 in oil and gas leases located in the Medicine River area and Eastern Alberta gas areas and now owns an interest in approximately 313,000 acres in Alberta and controls an interest in 125,000 acres in Turkey.

Net revenues from oil production during the fiscal year totalled $146,000 as compared to $61,000 last year. Revenues from oil and gas production next year will be significantly increased with the higher gas prices and with the Gambling Lake and the Prosperity area shut-in gas projects going on stream.

The company now owns an interest in 5 oilwells and 33 gas wells with estimated net proven recoverable reserves totalling 550,000 barrels of oil and 7 billion cubic feet of gas. Excellent potential for additional probable reserves exists on surrounding development acreage.

The company's limited exploration plans for Canada next year will be focused on the lower risk, shallow gas plays only, and will include participation in four selective gas prospects in Northeastern Alberta which are supported

with good subsurface geology and excellent land coverage. Two of these wells will be drilled during the summer season and two in the winter season. In addition the company will participate in 10 development wells in the Prosperity area in Eastern Alberta in order to place these gas properties on stream with Pan-Alberta Gas Ltd., prior to the end of our fiscal year. A strong effort will be made to farm out the development of our remaining oil properties in Canada.

The company will divert a major portion of next year's exploration budget to the U.S.A. where the combination of higher wellhead prices, more realistic taxation and lack of prorationing, provide an attractive netback to the explorer. Our company's operations are small enough to qualify for the 22% net depletion allowance. Cayuga is confident, as a result of many months of research, that there are numerous oil and gas pools with realistic risk-factors yet to be found in the U.S. and that an excellent rate of return on investment can be obtained. The company plans to concentrate U.S. efforts in exploring for the prolific multizone reservoirs along the mature onshore Texas and Louisiana coast area where higher gas prices prevail and current success ratios are most satisfactory. Cayuga will also monitor exploration operations in West Texas, Oklahoma, the Powder River Basin in Wyoming and the Denver-Julesburg basin in Colorado. We plan to hire staff with U.S. oil and gas expertise in order to generate our own prospects and are optimistic that the U.S. operation will contribute significant cash flow within a relatively short period of time.

The philosophy of the oil and gas decision is to concentrate on quick payouts and immediate cash flow by exploring for low to medium risk prospects. A minor portion of the exploration budget will be invested in high risk, but high potential wildcats. The selection of areas to explore will be directly related to the risk-factor and incentives offered, whether they be in the U.S. or Canada.

THOMSON INDUSTRIES LIMITED
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHE

ASSETS

	1975	1974
Current:		
Cash	—	$ 314,294
Accounts receivable	$ 4,318,486	3,539,025
Work in progress	42,772	—
Drilling supplies	200,617	41,975
Prepaid expenses	91,875	33,219
	4,653,750	3,928,513
Investments and Advances at Cost:		
Shares	189,481	38,068
Notes receivable and advances (Note 3)	180,525	224,737
	370,006	262,805
Fixed at Cost:		
Drilling rigs, service rigs, related property and equipment less accumulated depreciation of $3,940,962 (1974 - $3,629,639)	5,996,647	4,013,381
Oil and gas properties less accumulated depletion of $101,597 (1974 - $58,098)	1,729,026	1,016,962
	7.725,673	5,030,343
Other:		
Deferred costs	276,157	—
Goodwill	153,626	168,890
	429,783	168,890
	$13,179,212	$9,390,551

See accompanying notes

AUDITORS' REPORT

To the Shareholders of
Thomson Industries Limited.

We have examined the consolidated balance sheet of Thomson Industries Limited and its subsidiaries as at April 30, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

PRIL 30, 1975 AND 1974

LIABILITIES

	1975	1974
Current:		
Bank indebtedness (Note 2)	$ 1,880,000	$1,085,000
Accounts payable and accrued charges	3,068,633	2,458,798
Current maturities of long term debt	666,865	399,163
	5,615,498	3,942,961
Long term debt (Note 4)	1,743,126	1,330,873
Deferred income taxes	1,632,355	1,258,773
Shareholders' Equity:		
Capital (Note 5)		
Authorized —		
2,000,000 shares of no par value		
Issued —		
885,503 shares (1974 - 879,253 shares)	835,064	826,214
Retained earnings	3,353,169	2,031,730
	4,188,233	2,857,944
Contingency (Note 6)		
	$13,179,212	$9,390,551

On behalf of the Board: John Thomson

Director.

C. G. McConville

Director.

In our opinion, subject to such adjustments, if any, as would result from the determination of the income tax assessments referred to in Note 6, these consolidated financial statements present fairly the financial position of the companies as at April 30, 1975 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.
Chartered Accountants.

Calgary, Canada.
July 11, 1975.

THOMSON INDUSTRIES LIMITED
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED APRIL 30, 1975 AND 1974

	1975	1974
Revenue:		
Contract drilling and well servicing	$16,387,820	$11,431,903
Crude oil sales	146,212	60,980
Gain on sale of fixed assets	356,731	4,516
Other income	109,880	63,161
	17,000,643	11,560,560
Expenses:		
Operating	12,978,706	8,805,714
General and administrative	1,083,604	870,756
Interest on long term debt	278,493	130,638
Other interest	145,524	87,494
Depreciation	646,341	455,651
Depletion	43,499	16,000
Amortization of goodwill	15,264	15,264
	15,191,431	10,381,517
Income before income taxes and extraordinary item	1,809,212	1,179,043
Income taxes	855,324	590,536
Income for the year before extraordinary item	953,888	588,507
Extraordinary Item:		
Reduction of income taxes (Note 7)	(367,551)	—
Net income for the year	1,321,439	588,507
Retained earnings at beginning of year	2,031,730	1,443,223
Retained earnings at end of year	$ 3,353,169	$ 2,031,730
Earnings Per Share (Note 5):		
Income before extraordinary item	$1.08	$ .67
Extraordinary item	.41	—
Net income for the year	$1.49	$ .67

See accompanying notes.

THOMSON INDUSTRIES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED APRIL 30, 1975 AND 1974

	1975	1974
Source of Funds:		
Net income for the year	$1,321,439	$ 588,507
Add charges not requiring an outlay of funds —		
Depreciation, depletion and amortization	705,104	486,915
Deferred income taxes	373,582	590,536
Gain on sale of fixed assets	(356,731)	(4,516)
Funds provided from operations	2,043,394	1,661,442
Proceeds from sale of fixed assets	646,215	51,013
Issue of long term debt	1,231,272	1,959,010
Investments and advances	198,662	—
Issue of share capital	8,850	14,093
Total funds provided	4,128,393	3,685,558
Application of Funds:		
Acquisition of shares of Thomson Exploration Ltd. less $67,560 working capital acquired	—	832,440
Additions to drilling rigs and related equipment	2,919,091	1,052,094
Additions to oil and gas properties	755,563	569,736
Deferred costs	276,157	—
Reduction of long term debt	819,019	628,137
Investments and advances	305,863	91,301
Total funds applied	5,075,693	3,173,708
Increase (decrease) in working capital	(947,300)	511,850
Working capital deficiency at beginning of year	14,448	526,298
Working capital deficiency at end of year	$ 961,748	$ 14,448

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 1975

1. SUMMARY OF ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The Company's principal subsidiaries are Bow Island Drilling Canada Ltd., Thomson Drilling, Inc., Thomson Exploration Ltd. and Thomson Resources Ltd. (all wholly-owned) and Cayuga Oil & Gas Ltd. (87% owned).

(b) Foreign exchange

Accounts kept in other currencies are translated to Canadian dollars on the following basis: current assets and liabilities at the rate of exchange at the year end, fixed and other assets at the rates in effect at the dates of acquisition, and revenues and expenses at the average rate of exchange for the year.

(c) Work in progress and drilling supplies

Work in progress is carried at cost. Drilling supplies are stated at the lower of cost and estimated realizable value.

(d) Fixed assets

Depreciation of drilling rigs, service rigs and related equipment is provided on a straight line basis over the estimated useful lives of the assets.

The companies follow the full-cost method of accounting for oil and gas properties, wherein all costs relative to the exploration for and development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas.

(e) Deferred costs

Costs applicable to the relocation of drilling rigs to the United States are written off over the period of initial drilling contracts.

(f) Goodwill

Goodwill is being amortized over a fifteen year period.

(g) Income taxes

The companies follow the tax allocation basis of accounting for all timing differences between accounting and taxable income.

2. BANK INDEBTEDNESS

The bank indebtedness is secured by an assignment of accounts receivable and by debentures of $5,000,000 which are secured by a floating charge against all the remaining assets of the companies.

3. NOTES RECEIVABLE AND ADVANCES

	1975	1974
Notes receivable including a 10% demand note from an officer for $50,000 in connection with the purchase of a residence	$173,184	$119,653
Advances to directors and employees for purchase of shares from a trustee under share purchase plans (secured by the purchased shares)	103,691	105,084
	276,875	224,737
Less amount due within one year under share purchase plans included in accounts receivable	96,350	—
	$180,525	$224,737

4. LONG TERM DEBT

	1975	1974
Bank loan repayable in monthly instalments of $50,000 to July 1978 and $25,000 from August 1978 to October 1979 with interest at 1-1/2% above the bank's prime rate (secured - see Note 2)	$2,325,000	$1,275,000
Rig construction loan	—	350,000
Other	84,991	105,036
	2,409,991	1,730,036
Less instalments due within one year included in current liabilities	666,865	399,163
	$1,743,126	$1,330,873

The debenture is secured by a fixed, specific and floating charge on all of the companies' assets. In addition, the debenture contains restrictions with respect to capital expenditures and the payment of dividends.

Long term debt outstanding at April 30, 1975 matures during the years 1977 to 1980 as follows:

1977 - $618,126; 1978 - $600,000;
1979 - $375,000; 1980 - $150,000.

5. SHARE CAPITAL

During the year 6,250 shares were issued on the exercise of options for $8,850 cash advanced by the Company (see Note 3).

Pursuant to employees' Incentive Stock Option Plans, options to purchase 64,250 shares at prices ranging from $1.35 to $2.50 per share are outstanding including 25,250 to officers. Options are granted at prices not less than 90% of the market value at date of grant and are exercisable from time to time until March 31, 1978.

If the shares under option had been issued, earnings per share would have been $1.41 on a fully diluted basis.

6. CONTINGENCY

In 1970 Revenue Canada, Taxation assessed a wholly-owned subsidiary for income taxes in connection with its 1967, 1968 and 1969 taxation years of approximately $235,000 including interest to date. The subsidiary's objection to the assessment has been denied and an appeal has been filed with the Income Tax Appeal Board.

The Company's legal counsel has advised that in the light of certain decisions of the courts, currently under further appeal, the position of the subsidiary in respect of its appeal is uncertain.

Pending the ultimate outcome of the matter, no provision has been made in the accounts for this item.

7. EXTRAORDINARY ITEM

Income taxes otherwise payable have been reduced in 1975 as a result of claiming for income tax purposes certain drilling, exploration and lease acquisition costs which had been written off in the accounts of a subsidiary company prior to acquistion by Thomson Industries Limited. This reduction, less the related cost of the shares of the subsidiary, is shown as an extraordinary credit of $367,551 in the accompanying consolidated statement of income.

8. STATUTORY INFORMATION

Remuneration of directors and senior officers of the Company amounted to $248,400 during the year and is included in expenses in the accompanying consolidated financial statements.

DIRECTORS

John R. Baker, King, Ontario.
Edward J. Chambers, Calgary, Alberta.
Douglas B. Dunn, Houston, Texas.
John G. Fleming, Vancouver, British Columbia.
C. Donald Howson, Willowdale, Ontario.
Charles G. McConville, Vancouver, British Columbia.
William J Myers, Denver, Colorado.
Camerson S. Richardson, Calgary, Alberta.
John W. Thomson, Houston, Texas.

CORPORATE OFFICERS

John W. Thomson, President
Ludovic W. Philippot, Vice-President, Finance and Secretary
George Goruk, Vice-President, Oilwell Servicing
William J Myers, Vice-President, Drilling
Edward J. Chambers, Assistant-Secretary
James A. Bradshaw, Assistant-Secretary

OPERATING SUBSIDIARIES AND DIVISIONS

CAYUGA EXPLORATION, Inc.
- Burt Dunn - President
- Art Deyholos - Vice-President

TARGET WELL SERVICING
- George Goruk - General Manager
- Phil Goruk - Operations Manager
- Reg Osborne - Contracts Manager
- Lorne Ferguson - Chief Accountant

THOMSON DRILLING, INC.
- Bill Myers - President
- Len Phelps - Operations Manager, Rocky Mountain Region
- Art Schritt - Operations Manager, Texas
- Russ Bremner - Field Superintendent
- Dale Larsen - Engineering and Contracts Manager
- Ted Dumont - Secretary-Treasurer

THOMSON DRILLING (U.K.) LTD.
- Ross Lane - General Manager
- Al Jacober - Operations Manager

CANADIAN DRILLING OPERATIONS
- Marv Jones - Manager

BOW ISLAND DRILLING
- Marv Jones - General Manager
- George Starozik - Operations Manager
- Ron Milne - Field Superintendent
- Marv Clifton - Contracts Manager
- John Beard - Chief Accountant

SARCEE DRILLING
- Jim Westerman - General Manager
- Rene Blair - Operations Manager
- Ron Nayoski - Chief Accountant

HEAD OFFICE

3602 Toronto-Dominion Tower,
Toronto-Dominion Centre,
TORONTO, Ontario.

EXECUTIVE AND ADMINISTRATIVE OFFICE

3080, 1100 Milam Building,
1100 Milam Street,
HOUSTON, Texas. 77002

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada,
TORONTO and CALGARY.

AUDITORS

Clarkson, Gordon & Co.,
CALGARY, Alberta.

STOCK EXCHANGE LISTING

Alberta Stock Exchange,
CALGARY, Alberta.

ALCRAFT · CALGARY
LITHOGRAPHED IN CANADA